

**CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS**

**June 30, 2020**



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**City of Montezuma, Iowa  
Municipal Light and Power  
City Officials  
As of Year Ended June 30, 2020**

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**(Before January 2020)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sheryl Freeborn	Chairman, Light Plant Trustee	December 31, 2019
Doug Ver Meer	Co-Chairman, Light Plant Trustee	December 31, 2021
Lana Taylor	Light Plant Trustee	December 31, 2022
Harold Wheeler	Light Plant Trustee	December 31, 2023
Keith Hudnut	Light Plant Trustee	December 31, 2020
Kevin Kudart	Superintendent	Indefinite
Tammi Quinlan	Trustee Secretary	Indefinite
Amanda James – Sullivan and Ward P.C. Attorneys & Counselors at Law	Attorney	Indefinite

**(After January 2020)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sheryl Freeborn	Chairman, Light Plant Trustee	December 31, 2026
Doug Ver Meer	Co-Chairman, Light Plant Trustee	December 31, 2021
Lana Taylor	Light Plant Trustee	December 31, 2022
Harold Wheeler	Light Plant Trustee	December 31, 2023
Keith Hudnut	Light Plant Trustee	December 31, 2020
Kevin Kudart	Superintendent	Indefinite
Tammi Quinlan	Trustee Secretary	Indefinite
Amanda James – Sullivan and Ward P.C. Attorneys & Counselors at Law	Attorney	Indefinite



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**Van Maanen, Sietstra, Meyer & Nikkel, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

## **Independent Auditor's Report**

To the Board of Trustees  
City of Montezuma Municipal Light and Power  
Montezuma, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power, a component of the City of Montezuma, Iowa, as of and for the year ended June 30, 2020, and the related Notes to the Financial Statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the City of Montezuma Municipal Light and Power as of June 30, 2020, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

#### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

#### Other Matters

##### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Municipal Light and Power's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2019 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability and the Schedule of Utility Contributions on pages 5-7 and 19-23 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 8, 2020, on our consideration of the City of Montezuma Municipal Light and Power's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utility's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Montezuma Municipal Light & Power's internal control over financial reporting and compliance.

*Van Maanen, Sietstra, Meyer & Nikkel PC*

Van Maanen, Sietstra, Meyer & Nikkel, PC  
Certified Public Accountants

October 8, 2020

The City of Montezuma Municipal Light and Power provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2020. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

## **2020 FINANCIAL HIGHLIGHTS**

- Receipts of the Utility decreased 9.5%, or approximately \$282,000, from fiscal 2019 to fiscal 2020.
- Disbursements decreased 11.6%, or approximately \$254,500 from fiscal 2019 to fiscal 2020.
- The Utility's total cash basis net assets increased 17.8%, or approximately \$737,600 from June 30, 2019 to June 30, 2020.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the Utility as a whole and presents an overall view of the Utility's finances.

The Fund Financial Statements tell how proprietary services were financed in the short term as well as what remains for future spending. Fund financial statements report the Utility's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utility's budget for the year and the Utility's proportionate share of the net pension liability and related contributions.

## **Basis of Accounting**

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE UTILITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the Utility's net position. Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position show business type activities:

Business type activities include electric service. This activity is financed primarily by user charges.

#### *Fund Financial Statements*

The Utility has one kind of fund:

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains Enterprise Funds to provide information for the electric system, considered to be a major fund of the Utility.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The Utility's cash balance increased from a year ago, from \$4,152,945 to \$4,890,528. The analysis that follows focuses on the changes in cash balances.

<b>Changes in Cash Basis Net Position of Business Type Activities</b>		
<b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 2,610	2,902
General receipts:		
Unrestricted interest on investments	50	40
Other general receipts	25	24
Total receipts	2,685	2,966
Disbursements:		
Electric	1,947	2,201
Total disbursements	1,947	2,201
Change in cash basis net position	738	765
Cash basis net position beginning of year	4,153	3,388
Cash basis net position end of year	\$ 4,891	4,153

Total business type activities charges for service receipts for the fiscal year were \$2.610 million compared to \$2.902 million last year. The cash balance increased by approximately \$737,600 from the prior year.

The Montezuma Municipal Light and Power Plant has no governmental activities.



## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Electric Fund cash balance increased by \$737,583 to \$4,890,528.

## **BUDGETARY HIGHLIGHTS**

The Utility's budget was set at the beginning of the year with expected receipts at \$2,864,842 and disbursements at \$2,803,100. The Utility budget was not amended during the year. Total business type disbursements did not exceed the budget.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Total revenues for fiscal year 2020 decreased approximately \$282,000 from fiscal year 2019.

The Utility's total cash basis net assets increased by roughly \$737,600.

Fiscal year 2021 revenues are expected to remain about the same. The sale of several lots in the new south development area as well as several new homes having been built should increase the residential sales. Covid-19 has played a huge part in revenue decreases for fiscal year 2020. With the hopes of a vaccine being developed and more and better social distancing practices being followed usage of electricity and revenues hopefully will increase.

Collection of current bills continues to improve due to the ACH collection system. Collection of delinquent bills continues to improve due to our involvement in the State's Offsets Program. Still very strict rules and moratoriums set by the Iowa Utilities Board that limit when and how we can disconnect service for non-payment continue to make the process of delinquent bill collection a very difficult and trying task.

We believe that the overall economy in Montezuma remains somewhat stable, with no significant increase or decrease.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sheryl Freeman, Chairman of the Trustees, 501 East Main St., Box 314, Montezuma, Iowa 50171.

## **Basic Financial Statements**

Exhibit A

**City of Montezuma, Iowa**  
**Municipal Light and Power**  
**Cash Basis Statement of Activities and Net Position**  
**As of and for the year ended June 30, 2020**

				Net (Disbursements) Receipts and Changes in Cash Basis Net	
	Disbursements	Program Receipts		Assets	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Business Type Activities	Total
<b>Functions/Programs:</b>					
Business type activities:					
Electric	\$ 1,946,864	2,609,782	-	662,918	662,918
Total business type activities	\$ 1,946,864	2,609,782	-	662,918	662,918
<b>General Receipts:</b>					
Unrestricted interest on investments				49,435	49,435
Miscellaneous				25,230	25,230
Total general receipts				74,665	74,665
Change in cash basis net position				737,583	737,583
Cash basis net position beginning of year				4,152,945	4,152,945
Cash basis net position end of year				\$ 4,890,528	4,890,528
<b>Cash Basis Net Position:</b>					
Restricted:					
Non-expendable:					
CMMPA required deposit				\$ 199,000	199,000
Unrestricted				4,691,528	4,691,528
<b>Total cash basis net position</b>				\$ 4,890,528	4,890,528

See notes to financial statements.

Exhibit B

**City of Montezuma, Iowa**  
**Municipal Light and Power**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2020**

	Enterprise Funds
	Electric
Operating receipts:	
Charges for service	\$ 2,609,782
Total operating receipts	<u>2,609,782</u>
Operating disbursements:	
Business type activities	<u>1,945,844</u>
Total operating disbursements	<u>1,945,844</u>
Excess of operating receipts over operating disbursements	663,938
Non-operating receipts (disbursements):	
Rental income	21,755
Interest on investments	49,435
Miscellaneous	3,475
Miscellaneous expense	<u>(1,020)</u>
Net non-operating receipts (disbursements)	<u>73,645</u>
Excess of receipts over disbursements	<u>737,583</u>
Change in cash balances	737,583
Cash balances beginning of year	<u>4,152,945</u>
Cash balances end of year	<u><u>\$ 4,890,528</u></u>
<b>Cash Basis Fund Balances</b>	
Restricted:	
Restricted deposit-CMMPA	\$ 199,000
Unrestricted	<u>4,691,528</u>
Total cash basis fund balances	<u><u>\$ 4,890,528</u></u>

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Municipal Light and Power

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

to the Cash Basis Statement of Activities and Net Position -

Proprietary Funds

As of and for the year ended June 30, 2020

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Total enterprise funds cash balances (Exhibit B)	\$ 4,890,528
Cash basis net position of business type activities (Exhibit A)	\$ 4,890,528
Change in cash basis net position (Exhibit A)	\$ 737,583
Change in cash balance of business type activities (Exhibit B)	\$ 737,583

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma Municipal Light and Power is a municipal utility operating in the City of Montezuma, Iowa. The Utility has a board appointed on a non-partisan basis. The Utility provides electric utility for the City's citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma Municipal Light and Power has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria. The Utility is, however, a component unit of the City of Montezuma. The City of Montezuma Municipal Light and Power is legally separate from the City of Montezuma but is financially accountable to the City. The Utility is governed by a five member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council and is a part of the City's certified budget. The Utility is includable as a component unit within the City of Montezuma reporting entity.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the Utility's non-fiduciary net position. Net position is reported in the following categories/components:

*Non-expendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained by an outside party on behalf of the Utility.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary fund:

The Enterprise, Electric Fund accounts for the operation and maintenance of the Utility's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Montezuma Municipal Light and Power maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The Utility has a required deposit which is a non-expendable restricted cash balance as listed in Exhibit A and B.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the Utility's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2020, disbursements did not exceed the amount budgeted in the business type activities function.

(2) **Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,960,314 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The Utility's investment in the Iowa Power Public Agency Investment Trust is unrated.

(3) **Pension Plan**

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever

comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In the fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utility contributed 9.44% for a total rate of 15.73%.

The Utility's contributions to IPERS for the year ended June 30, 2020 were \$30,251.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the Utility reported a liability of \$239,161 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Utility's proportion was 0.004103%, which was an increase of 0.000723% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020 the Utility pension expense, deferred outflows of resources and deferred inflows of resources totaled \$50,012, \$128,328 and \$66,999 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation	2.60% per annum.
(effective June 30, 2017)	



Rate of salary increases (effective June 30, 2017)	3.25 to 16.25%, average, including inflation Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(.021)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Utility's proportionate share of the net pension liability	\$ 424,672	\$ 239,161	\$ 83,556

IPERS' Fiduciary Net Position – Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on the IPERS' website at [www.ipers.org](http://www.ipers.org).

**(4) Other Postemployment Benefits (OPEB)**

Plan Description – The utility operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The Utility currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utility and the plan members range from \$381 to \$1,035 for single coverage to \$300 to \$950 for family coverage. For the year ended June 30, 2020, the Utility contributed \$57,533 and plan members eligible for benefits contributed \$0 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by Montezuma Municipal Light and Power and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	5
Total	<u>5</u>

**(5) Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City of Montezuma Municipal Light and Power until used or paid. The Utility's approximate liability for earned vacation payments payable to employees at June 30, 2020 is \$26,672. This liability has been computed based on rates in effect at June 30, 2020.

**(6) Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ 22,269	
Water Dept. Billing/Meter Reading	17,502	
Water Dept reimbursement for shared items	6,399	
Gas Dept. Electric Use	1,069	
Gas Dept. Billing/Meter Reading	17,502	
Gas Dept reimbursement for shared items	6,637	
General City Electric Use	39,321	
City reimbursement for shared items	6,946	
Sewer/Recycling Billing	2,100	
Payment in lieu of taxes	-	(37,541)
Totals	<u>\$ 119,745</u>	<u>(37,541)</u>

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

**(7) Related Party Transactions**

The Light and Power Plant had business transactions between the Plant and related parties of the Plant totaling \$29,772 during the year ended June 30, 2020.

**(8) Risk Management**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Economic Dependency**

During the year ended June 30, 2020, the City of Montezuma Municipal Light and Power had one major supplier who provided 100% of the Utility's purchased power. It also had one major customer; whose purchases totaled 21.95% of the charges for service revenue of the Utility.

**(10) Commitments and Contingencies**

On December 6, 2006, the City of Montezuma Municipal Light and Power entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. There is a total contingent liability for \$238,617, or 0.88% of a \$27,115,533 investment by CMMPA. This liability was determined as of June 30, 2016 and as of June 30, 2020, none of this has been paid. To date revenues have covered costs on this investment so CMMPA has not required the funds, but we remain committed to this payment if needed.

## **Other Information**

**City of Montezuma, Iowa**  
**Municipal Light and Power**  
**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)**  
**Proprietary Funds**  
**Other Information**  
**Year ended June 30, 2020**

	Proprietary Funds Actual	Original & Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 71,190	-	71,190
Miscellaneous	3,475	-	3,475
Charges for service	2,609,782	2,864,842	(255,060)
Total receipts	2,684,447	2,864,842	(180,395)
Disbursements:			
Business type activities	1,946,864	2,803,100	856,236
Total disbursements	1,946,864	2,803,100	856,236
Excess (deficiency) of receipts over (under) disbursements	737,583	61,742	675,841
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	737,583	61,742	675,841
Balances beginning of year	4,152,945	(532,657)	4,685,602
Balances end of year	\$ 4,890,528	(470,915)	5,361,443

See accompanying independent auditor's report.

**City of Montezuma, Iowa**  
**Municipal Light and Power**  
**Notes to Other Information - Budget Reporting**  
**June 30, 2020**

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The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no amendments to the electric utility budget for the year.

During the year ended June 30, 2020, disbursements did not exceed the amounts budgeted.

**City of Montezuma, Iowa**  
**Municipal Light and Power**  
**Schedule of the Utility's Proportionate Share of the Net Pension Liability**  
**Iowa Public Employee's Retirement System**  
**For the Last Six Years\* (In Thousands)**  
**Other Information**

	2020	2019	2018	2017	2016	2015
Utility's proportion of the net pension liability	0.004103%	0.003368%	0.003731%	0.002588%	0.003099%	0.003510%
Utility's proportion of the net pension pension liability	\$ 239	213	246	161	154	142
Utility's covered-employee payroll	\$ 314	253	276	184	214	234
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	76.11%	84.19%	89.13%	87.50%	71.96%	60.68%
Plan fiduciary net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

\*In accordance with GASB Statement 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

**City of Montezuma, Iowa**  
**Municipal Light and Power**  
**Schedule of Utility Contributions**  
**Iowa Public Employees' Retirement System**  
**Last 10 Fiscal Years (In Thousands)**  
**Other Information**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 30	30	23	25	16	19	21	20	18	17
Contributions in relation to the statutorily required contribution	(30)	(30)	(23)	(25)	(16)	(19)	(21)	(20)	(18)	(17)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
Utility's covered-employee payroll	\$ 320	314	253	276	184	214	234	225	224	240
Contributions as a percentage of covered-employee payroll	9.38%	9.55%	9.09%	9.06%	8.70%	8.88%	8.97%	8.89%	8.04%	7.08%

See accompanying independent auditor's report.



Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

**CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER**



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**Van Maanen, Sietstra, Meyer & Nikkel, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

To the Board of Trustees  
City of Montezuma Municipal Light and Power  
Montezuma, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power, Montezuma, Iowa, as of and for the year ended June 30, 2020, and the related Notes to the Financial Statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated October 8, 2020. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Montezuma Municipal Light & Power's internal control over financial reporting to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma Municipal Light & Power's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma Municipal Light & Power's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Montezuma Municipal Light & Power's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control we consider to be material weaknesses. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item (I-A-20) to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma Municipal Light and Power's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2020, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of Montezuma Municipal Light and Power's Responses to Findings

The City of Montezuma Municipal Light and Power's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Montezuma Municipal Light and Power's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma Municipal Light and Power during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen, Sietstra, Meyer & Nikkel PC*

Van Maanen, Sietstra, Meyer & Nikkel, PC  
Certified Public Accountants

October 8, 2020

**Part I: Findings Related to the Financial Statements:**

**Internal Control Deficiencies:**

- (I-A-20) Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Due to cross-training for versatility, personnel have access to functions which, from a segregation of duties standpoint, are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utility should segregate duties to the extent possible with existing personnel and continue to utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

**Instances of Non-compliance:**

No matters were noted.

**Part II: Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - Disbursements during the year ended June 30, 2020 did not exceed the budgeted amounts.
- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City of Montezuma Municipal Light and Power money for travel expenses of spouses of Utility officials or employees were noted.
- (4) Business Transactions - Business transactions between the Utility and Utility officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Doug Ver Meer, Trustee, Owner of Vannoy Chevrolet	New Vehicle	\$ 29,772

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with the Trustee may represent a conflict of interest since the total transaction was more than \$6,000 during the fiscal year.

Recommendation – The Utility may want to seek legal advice regarding the related transaction.

Response – We will consider this.

Conclusion – Response acknowledged.

- (5) Restrictive Donor Activity – No transactions were noted between the Utility, Utility officials, Utility employees and restricted donors in compliance with Chapter 68B of the Code of Iowa
- (6) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

**City of Montezuma, Iowa  
Municipal Light and Power  
Schedule of Findings  
Year ended June 30, 2020**

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- (7) Trustee Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- (9) Revenue Note - The City of Montezuma Municipal Light and Power has no revenue notes. No instances of non-compliance were noted.